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RUCPDO/USDOC WASHDC
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SUBJECT: MARCH 2006 INFLATION UPDATE AND PREDICTIONS

REF: BUENOS AIRES 852

SUMMARY

¶1. The Consumer Price Index (CPI) rose 1.2 percent in March. This brings the 12-month inflation rate to 11.1 percent. Clothing, Education, and Food and Beverages were the three CPI components with the highest monthly price rises in March, increasing 9.5 percent, 6.1 percent and 1.5 percent, respectively. Average nominal salaries increased 1.0 percent in February and the purchasing power of salaried workers in February 2006 was 4.7 percent higher than in February 2005. Official surveys put the percentage of people living below the poverty line at 33.8 percent in the second half of 2005, down from 38.5 percent in the previous semester. The percentage of people living below the destitution level declined to 12.2 percent during the second half of 2005, down from 13.6 percent in the previous semester. However, the peso value of the poverty line and the destitution line grew 1.3 percent and 1.7 percent respectively, in March. According to the Central Bank's survey of market expectations, CPI inflation is expected to be 0.8 percent in April, and 12.4 percent in 2006. End Summary.

THE CONSUMER PRICE INDEX

¶2. The official Consumer Price Index (CPI) was 1.2 percent higher in March 2006 than in February 2006, as predicted by the Central Bank's (BCRA) consensus forecast. March inflation brought 12-month inflation to 11.1 percent. Prices of Goods increased 1.7 percent and Prices of Services increased 0.5 percent

in March. Prices of goods that change depending on the season decreased a monthly 0.5 percent, regulated prices increased 0.2 percent, and the rest, which constitutes "core inflation," increased 1.7 percent in March. Core inflation was 12.5 percent between March 2005 and March 2006. The official CPI measures inflation only in the Greater Buenos Aires urban area.

13. Clothing, Education, and Food and Beverages were the three CPI components with the highest monthly price rises in March, increasing 9.5 percent, 6.1 percent and 1.5 percent, respectively. Education was the CPI component that increased the most between March 2005 and March 2006, posting a 20.0 percent increase. It was followed by Food and Beverages, which rose 13.7 percent, and Clothing, which increased 12.6 percent.

TABLE I
CONSUMER PRICE INDEX (1999 = 100)

YEAR	CPI PCT CHG PREV YR	CORE INFLATION PCT CH PREV YR
2001	-1.5	n.a.
2002	41.0	n.a.
2003	3.7	n.a.
2004	6.1	6.4
2005	12.3	14.2
	CPI PCT CHG PREV MO	CORE INFLATION PCT CH PREV MO
2005		
JAN	1.5	1.1
FEB	1.0	1.3
MAR	1.5	2.2
APR	0.5	0.8
MAY	0.6	0.6
JUN	0.9	1.1
JUL	1.0	1.0
AUG	0.4	0.9
SEP	1.2	0.9
OCT	0.8	0.7
NOV	1.2	1.4
DEC	1.1	1.4
2006		
JAN	1.3	0.7
FEB	0.4	0.7
MAR	1.2	1.7

Source: National Bureau of Statistics and Census (INDEC).

POVERTY AND DESTITUTION LEVELS

14. INDEC publishes a monthly estimate of the value of a "total consumption basket" and a "food consumption basket." These baskets are based on estimates of the minimum nutritional requirements and other consumption habits of people of different ages. These estimates determine the official poverty line and the official destitution line, respectively. For a family of four in March, the poverty line was ARP 859.95 (USD 280) and the destitution line was ARP 399.97 (USD 130). A family of four is defined as a man and a woman in their thirties, an eight-year-old girl and a five-year-old boy.

15. The peso value of the poverty line grew 1.3 percent in March, and rose 11.3 percent in the March 2005 - March 2006 period. The peso value of the destitution line increased 1.8 percent in March, and rose 12.8 percent in the March 2005-March 2006 period. Thus, prices for essential food items consumed by the

poor increased more rapidly than for other items, despite the GOA's increasing efforts to control food prices.

¶16. The percentage of people living below the poverty line was 33.8 percent in the 28 most important urban areas of Argentina in the second half of 2005. The percentage of the poor was 38.5 in the first half of 2005, and 40.2 percent in the second half of 2004. The percentage of people living below the destitution line was 12.2 percent in the 28 most important urban areas in the second half of 2005. The percentage of the destitute was 13.8 percent in the first half of 2005, and 15.0 percent in the second half of 2004. The Embassy expects poverty and destitution to continue to decline in 2006, but at an ever-decreasing rate (see reftel).

AVERAGE NOMINAL SALARIES

¶17. INDEC estimated that average nominal salaries increased 1.0 percent in February 2006 over January ¶2005. Inflation was 0.7 percent during that period. The average nominal salary increase in February was due to increases of 1.4 and 0.8 in formal and informal private sector salaries, respectively, and no changes in public sector salaries. Public sector salaries mentioned here include salaries of federal and provincial employees.

¶18. Average nominal salaries grew by 16.7 percent between February 2005 and February 2006. This growth was due to increases of 20.7, 17.6 and 7.1 percent in formal private sector, informal private sector and public sector salaries, respectively. Inflation in the same period was 11.5 percent. Therefore, the purchasing power of the average salaried worker in February 2006 was on average 4.7 percent higher than it was in February 2005. Both formal and informal private sector salaries had significant gains of purchasing power of 8.2 and 5.5 percent, respectively. However, public sector salaries had a 4 percent decline.

WHOLESALE PRICE INDEXES

¶19. The Wholesale Price Index (IPIM) decreased 0.6 percent during March 2006, bringing the total IPIM increase since March 2005 to 11.0 percent. This index measures the price changes of national products (including Primary Products and Manufactured Goods and Electric Power) and imports sold in the domestic market. The IPIM also includes taxes. The 0.6 percent decrease in March was due to a 4 percent decline in Primary Product prices and a 0.7 percent increase in Manufactured Goods. The decline in Primary Products was largely the result of a 7.4 percent fall in Oil and Gas prices. Electric Power prices did not change. Import prices increased 0.6 percent.

¶10. The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM, except that it excludes taxes. The IPIB decreased 0.6 percent in March, bringing the total IPIB increase since March 2005 to 11.5 percent. The 0.6 percent decrease in March was due to a 3.9 percent decline in Primary Product prices and a 0.7 percent increase in Manufactured Goods. Electric Power prices did not change. Import prices increased 0.6 percent.

¶11. The prices for the sectors measured in the IPIM and IPIB are weighted using the corresponding value of product net of exports. INDEC has devised another

index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP decreased 0.6 percent in March 2006, bringing the total IPP increase since March 2005 to 11.7 percent. Primary Products decreased 4.1 percent and Manufactured Goods increased 0.8 percent. Electric Power prices did not change.

CONSTRUCTION COSTS

¶12. The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 1.0 percent in March 2006. These costs were 16.1 percent higher than in March 2005. The March increase is the result of a 1.4 percent increase in materials, a 0.5 percent rise in labor costs, and a 0.7 percent increase in other construction costs. Wages of salaried employees working for the sector increased 0.5 percent and payments to the self-employed grew 0.8 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2006

¶13. The GOA's national budget includes a 9.1 percent inflation forecast for 2006. The BCRA monetary program for 2006 announced on December 29, 2005, established an inflation target of between 8-11 percent for 2006. According to the BCRA's last survey of market expectations published on March, CPI inflation is expected to be 0.8 percent in April, and 12.4 percent in 2006.

¶14. To see more Buenos Aires reporting, visit our classified website at:
<http://www.state.sgov.gov/p/wha/buenosaires>

GUTIERREZ